



Washington State Auditor's Office

2001 Annual Report



Washington

State Auditor

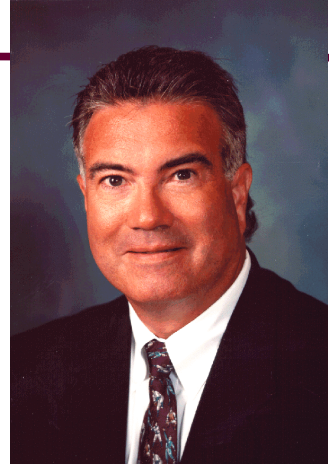
Brian Sonntag

--- To the Citizens of Washington ---

December 2001

At the beginning of this year, the State Auditor's Office was asked to make recommendations regarding a comprehensive statewide performance review.

That proposal, delivered to key Democrat and Republican lawmakers in March, laid out a plan to measure state agencies' compliance with laws pertaining to financial and performance accountability and with measures the agencies have developed to gauge their own operations.



Unfortunately, the Legislature's performance audit pilot project was not enacted. What I hope to present in this annual report are compelling reasons why such a review is needed and why our Office is uniquely positioned to do it.

State agencies are working hard to improve the quality, efficiency and effectiveness of the services they provide. Performance measures are now an inherent part of state agency strategic planning and budgeting.

So why the need for a performance review? Currently, there is no overall, comprehensive review of whether state government is meeting performance goals or measures designed to ensure programs are efficient and effective. And, although it's been asked for decades, no one has stepped forward to answer the question: "What core services should government provide and how can it do so in the most effective and efficient way?"

At this time in our state, we should come together and look for solutions.

Our Office was created in the State Constitution as the "auditor of all public accounts." Our auditors are out there, every day, looking at agency operations, recommending improvements and working with agencies to find efficient ways to ensure accountability. That puts us in a great position to take an independent, across-the-board look at how agencies are measuring up to expectations.

I encourage you to read this report, study our suggestions, and offer any constructive ideas that you may have for ensuring government accountability.

Sincerely,

A stylized, handwritten signature in black ink, appearing to read "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

2001 Highlights

Like most of you, we've had an interesting year.

A major event, at least for the Olympia staff, was the February 28 Nisqually Earthquake, which displaced our headquarters staff from the Capitol Building. After three moves, we decided they would relocate in the Sunset Building in Tumwater until the Capitol renovation project is completed.

I can't say enough about the perseverance our of staff members during this time, particularly those in Western Washington most directly affected by the quake. Most, if not all, went back to work the next day.

I also need to compliment all of our staff for the outstanding work they have done this year. In particular:

- Our Lynnwood Team spent several months and countless hours working on a very complicated audit of a bond sale by a sewer district. We reported that the sale was illegal, and made our first-ever referral to the U.S. Securities and Exchange Commission.
- At the behest of the Legislature, we continued our research on a statewide performance review/audit, and made recommendations on how to accomplish that.
- We continued to refine our audit and reporting processes to make them more efficient and effective.
- In 2001, we received one formal appeal of our audit costs, which has been resolved. The Holmes Harbor Sewer District appealed a portion of the costs of reviewing a bond transaction. However, after going through the resolution process required by state law, it was determined that the District would pay the bill. We continue to work with the District on a payment schedule.
- Made organizational changes designed to streamline our management team and give our front-line managers and other employees more decision-making authority.
- Worked with legislators, government associations and others to pass a bill clarifying the state's Open Public Meetings Act.

We look forward to 2002, and to continuing to work with our audit clients to promote open and accountable government.

How to find us

For those of you who are used to dropping in to say hello, we've moved from the Capitol Building to the Sunset Building in Tumwater.

To get to our new offices from the Capitol, go south on Capitol Way. After you cross a bridge over Interstate 5, go the light at the intersection and turn left. Turn right into the parking lot behind the building and go to the south end.

**The street address is:
3200 Capitol Blvd S.
South Wing
Olympia, WA
98501-3304**

We plan to be in this location until the Legislative Building renovation project is completed.

— Performance Review —

A statewide performance review should focus on the executive branch of state government.

It should look at state government from the perspective of the clients we are trying to serve. We need to continue to take advantage of new technology to deliver more goods and better service at a lower cost.

This review should be conducted using existing state expertise in collaboration with business and community volunteers. The leadership and management of this review should not be contracted out.

It also is critical that front-line state employees be given incentives and opportunities to provide suggestions and to participate in the review effort. State employees know where opportunities for improvements are.

The Legislature, other public officials, state employees and citizens need to know the extent to which state agencies and programs are achieving the purposes for which they were created. It is essential to compare the conditions, problems and priorities that led to the creation of state agencies and programs with current conditions, problems and priorities and to examine the need for those agencies and programs in the current environment.

Along with examining the performance of state agencies and programs, policy makers and citizens also must consider the effect that state government programs have on people's lives. They must regularly compare the level of programs and services of Washington state government to that of other comparable entities. Much can be done to improve state government in tangible, nonpartisan ways.

Believing that an overall look at state government was a way to collect this information, legislators in early 2001 requested our recommendations in three areas:

- Reconnecting citizens to state government.
- Conducting a comprehensive statewide performance review, including a look at laws that have been enacted to promote financial and performance accountability and the roles of those charged with providing oversight.
- Ways to take further advantage of new technology to deliver more goods and better service at a lower cost.

Based on this request and our research, we suggested the Governor and the Legislature:

- Authorize a comprehensive review of state government. The review would build on the nature of the work currently being performed by the Joint Legislative Audit and Review Committee, but would take a big picture, rather than individual program approach.
- Examine current laws designed to promote financial and performance accountability to ensure that they reflect public expectations and sound financial management principles and make changes as deemed appropriate.

Performance Review

- Take a fresh look at the roles of each of the agencies and committees charged with promoting accountability and performance and make adjustments as deemed necessary.
- Consider setting up the Alliance for Accountability as a means of reconnecting citizens to government. House Bill 1276, which did not pass the 2001 Legislature, would have created this alliance.
- Give favorable consideration to legislation calling for independent reviews of selected agency performance measurement efforts.

We also recommended that the state Information Service Board and the Department of Information Services:

- Should be authorized and funded to provide greater assistance to state agencies and programs in their efforts to increase efficiency and to demonstrate results.
- Annually evaluate and provide recommendations to the Governor and Legislature relative to the state's use of information technology and electronic commerce from a statewide perspective.

These recommendations build on strong efforts that have been made to strengthen accountability. New laws and policies seek to make state officials and agencies good stewards of the financial resources entrusted to us and to hold state officials accountable for results. In other words, in addition to making legally appropriate expenditures, we also need to hold state officials responsible for the value received.

These performance-related laws and initiatives focus on individual agencies and programs. They do not create a structure for the overall management of state government and the resources entrusted to it. Hence, there is a risk that we are building and sustaining unneeded, overlapping bureaucracies and administrative costs.

The Alliance for Accountability

- **Would be composed of Washington's top leaders and best thinkers, including citizens, business, labor, front-line state employees, college and university students and faculty, and elected leaders.**
- **Could address fundamental and far-reaching questions such as what services state government should provide, how they should be delivered and how we should finance those services.**
- **The Alliance proposal is in House Bill 1276, which was considered, but not adopted, by the 2001 Legislature.**

— Performance Review —

The Legislature's role

As program and funding policies are discussed, it is very useful to consider the effect a particular program or funding decision would have on performance.

Performance measures provide a tool that can be used to make this assessment.

Legislative hearings also afford the opportunity to examine the baseline performance indicators that have been established by the agency and the degree to which citizens and policy makers were involved in the adoption of those measures. In other words, is the agency measuring the right thing in the right way?

Another way to look at this issue is by asking a fundamental question. If we were to build an organization from scratch today to deliver the programs, services and activities that state government is committed to, what would state government look like?

Three initiatives are critical to strengthening the performance and accountability of state government and are fundamental to improving citizen respect for and confidence in government.

First, we need to devise strategies for reconnecting citizens and government.

Second, we need to take advantage of rapid technological advances in focusing attention on government responsiveness, coordination of services, results orientation and accountability.

Third, we have an opportunity and obligation to take a comprehensive look at what state government should be doing and how it should be doing it. We must demonstrate that state government is a prudent steward of public resources and that it is delivering services that Washington citizens want, need and can afford. We need to ensure that we have the management framework to ensure we are accomplishing this.

We all know that increasing citizen frustration has led to the passage of initiatives limiting the growth in government spending. At the same time, the state is attempting to address an increasing demand for services brought about by population growth and other circumstances. A slowing economy and another set of initiatives that provide automatic cost-of-living increases for teachers and the reduction of classroom sizes are placing significant new demands on the state's budget. Therefore, it is imperative that state government gets the maximum value for every public dollar entrusted to it. That is what the public expects.

We must not shrink from our responsibility to listen. We must welcome it as an opportunity to reassess whether the way we do business aligns with the desires and expectations of Washington citizens. We must deal with policies for tomorrow, not yesterday's politics. The issue of governance is just too important.

Fraud and Whistleblower Programs

We place a high priority on our fraud and whistleblower investigations.

We have made fraud prevention and detection an integral part of our risk-based approach to auditing. This approach provides meaningful information to citizens, legislators and other policymakers interested in state and local government operations.

We take great pride in the two aspects of the fraud program: The Special Investigations Team, which monitors all fraud cases throughout the state and our fraud prevention training for the financial managers of state agencies and local governments. Annually, we reach more than 2,500 employees.

The State Employee Whistleblower Protection Program authorizes the Office to investigate and report on assertions of improper governmental action that result from violations of federal or state law or rule; a gross waste of public funds; or actions which are of substantial and specific danger to public health or safety. The law also provides remedies to state employees who believe that workplace reprisal or retaliatory action has occurred as a result of having filed, or provided information in connection with, a report of improper governmental action.

We work hard to complete our investigations in a timely manner. In calendar year 2001 the average time for a Whistleblower investigation declined by 33 percent, dropping from an average of 217 days to 146 days. Investigations resulting in substantiated assertions were reduced by an average of 42 fewer days and investigations of non-substantiated assertions achieved a 60 percent reduction, declining from an average of 100 days to only 40 days.

In the past year, we have reported on more than \$500,000 in fraud in state agencies and local governments. In the past 14 years, we have investigated almost 450 frauds totaling \$8.4 million in losses.

During fiscal year 2001 the Whistleblower Program substantiated 38 percent of all assertions filed and sought recovery of more than \$265,000.

Additional information on the programs will be in separate reports published later this year.

Schools

The results of our work can be found on our web site,
www.sao.wa.gov.

To find the schools sections, click on the Local Government button.

Also, the Joint Legislative Audit Review Committee has done its own assessment of special education programs. You can find that report at

<http://jlarc.leg.wa.gov/>

The state's 296 school districts, which spend \$6.1 million in state and federal dollars each year, have proven to be good stewards of public dollars.

In fact, our work over the past several years has shown that nearly 100 percent of the money the education system receives is spent for appropriate purposes. In addition to our regular audits of districts, the Legislature asked us to pay special attention to special education programs and how districts spend and report on the dollars they receive for student transportation, teacher education and experience and enrollment.

Based on what we've found, we have recommended that the Legislature take back the more than \$1 million in general fund money that we receive to do these audits.

Also in 2001, we continued work under our Single Audit of Schools Pilot Project. School districts spending more than \$300,000 in federal funds are required to have an audit of those funds. This pilot provides for a cycled approach to this audit, as opposed to an annual single audit for each district, adding efficiencies to our audits and saving districts money.

However, it is likely that this project will be discontinued after audits are completed in 2002. While we strongly believe that the increased coverage of federal programs is a benefit to the federal government, and that the audit cost savings associated with the centralized approach are important to all parties, we have been unable to reach a consensus with the education community about what would be needed to continue this innovative approach to auditing.

The local governments we audit range from tiny mosquito districts to the largest, most complex organizations, such as King County.

But no matter what the size, we view these audit clients as partners in our efforts to promote accountability over public dollars.

We know that local governments are facing some challenges as they respond to voter passed initiatives limiting tax increases. We want to assist them in developing efficient and innovative approaches to effective internal controls that protect tax dollars from loss, misappropriation or misuse.

We also appreciate the partnerships we have with associations representing local governments. These associations work with us on complex issues ranging from the provision of Internet delivery systems to compliance with new federal regulations on reporting.

Our Local Government Finance Project continues to collect and report on information from the state's counties and cities.

The information is easily accessed on our web site, www.sao.wa.gov, and reports can be customized, depending on what a user needs.

Policymakers, legislators, citizens and local government officials find the data very helpful.

— Recommendations —

Common internal control issues

- **A lack of oversight over payroll processing and timesheets.**
- **Grants that are improperly charged for unallowable costs.**
- **A lack of policies and procedures on Internet and E-mail use.**
- **A lack of documentation that public funds were spent for public purpose, i.e. travel, meals, etc.**

One of the most valuable services we provide is recommendations on how agency operations can be improved.

In the past year, we closely examined the internal controls of many local governments and state agencies.

Internal controls are those policies and processes that are used to safeguard resources against misappropriation, loss or misuse and to ensure compliance with laws, regulations, contracts and management directives. Internal controls also enable organizations to develop and maintain timely and reliable financial information needed to help citizens make informed decisions about government operations.

An effective system of internal controls can give managers the means to provide accountability for programs, and a way to determine whether the programs they direct meet established goals and objectives.

As organizations become more complex and introduce new processes and automated systems, the need for strong internal controls increases.

Our experience with many types of governments and internal control systems helps us make recommendations for improvements. We view this constructive, proactive process as one of the most important elements of our work.

About our Office

The Washington State Auditor's Office was created in the Constitution and is responsible for auditing every public dollar spent by state and local government in the state.

We audit more than 2,600 governments annually or every two and three years depending on the size and complexity of their operations. This includes all state agencies, colleges and universities, counties, cities and towns, school districts and various taxing districts.

While we audit financial statements, much of our work focuses on compliance with state laws and regulations and the entities' own policies and ordinances.

We also concentrate on areas in which public resources are most at risk. These areas include cash handling operations, vendor payments, payroll, bidding and travel.

We actively report our work. Because citizens need information to assess how well government is operating, we widely disseminate our audit reports as reporting tools to the public. We also report our work to government entities as management tools to help them improve their operations.

- **We are a large, professional organization. We operate on a \$40 million two-year budget with a staff of about 300 employees.**
- **We have 19 teams located in Olympia and throughout the state.**
- **Our web site is www.sao.wa.gov**

— Contacting Us —

PO Box 40021
Olympia WA 98504-0021

Information and Receptionist
(360) 902-0370

State Auditor: Brian Sonntag, CGFM (360) 902-0360
Executive Assistant: Monica Cooper (360) 902-0361
Chief of Staff: Ted Rutt (360) 902-0371
Special Assistant, Quality and Staff Development:
 Rick Sweeney (360) 902-0365
Director of Audit: Chuck Pfeil, CPA (360) 902-0366
Deputy State Auditor, Policy and Administration:
 Linda Long, CPA, CGFM (360) 902-0367
Deputy State Auditor, Local and State Governments Liaison:
 Mike Murphy (360) 902-0362
Communications Manager:
 Mindy Chambers (360) 902-0091
Whistleblower Program Manager:
 Meg Grimaldi (360) 902-0368
Fraud Investigations/Training Manager:
 Joe Dervaes (360) 710-1545

Local Government Audit Teams

Bellingham (360) 676-2165
King County (253) 872-2622
Lynnwood (425) 672-1335
Olympia (360) 586-2985
Port Orchard (360) 895-6133
Pullman (509) 335-5868
Seattle (253) 872-2641
Spokane (509) 456-2700
Tacoma (253) 593-2047
Tri-Cities (509) 734-7105
Vancouver (360) 260-6408
Wenatchee (509) 662-0440
Yakima (509) 454-7848
School Programs (360) 586-4692
Local Government Finance Project (360) 753-3574

State Government Audits

Financial Audit (360) 753-2680
Higher Education (253) 872-2641
Human Services (360) 753-2692
Judicial, Executive and Legislative (360) 586-1972
Technology (360) 586-1915

**State Auditor's Office
Mission Statement**

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments, we strive to ensure the proper use of public resources.

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